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Discount Store News®

THE NEWSPAPER OF DISCOUNT RETAILING

SECOND CLASS

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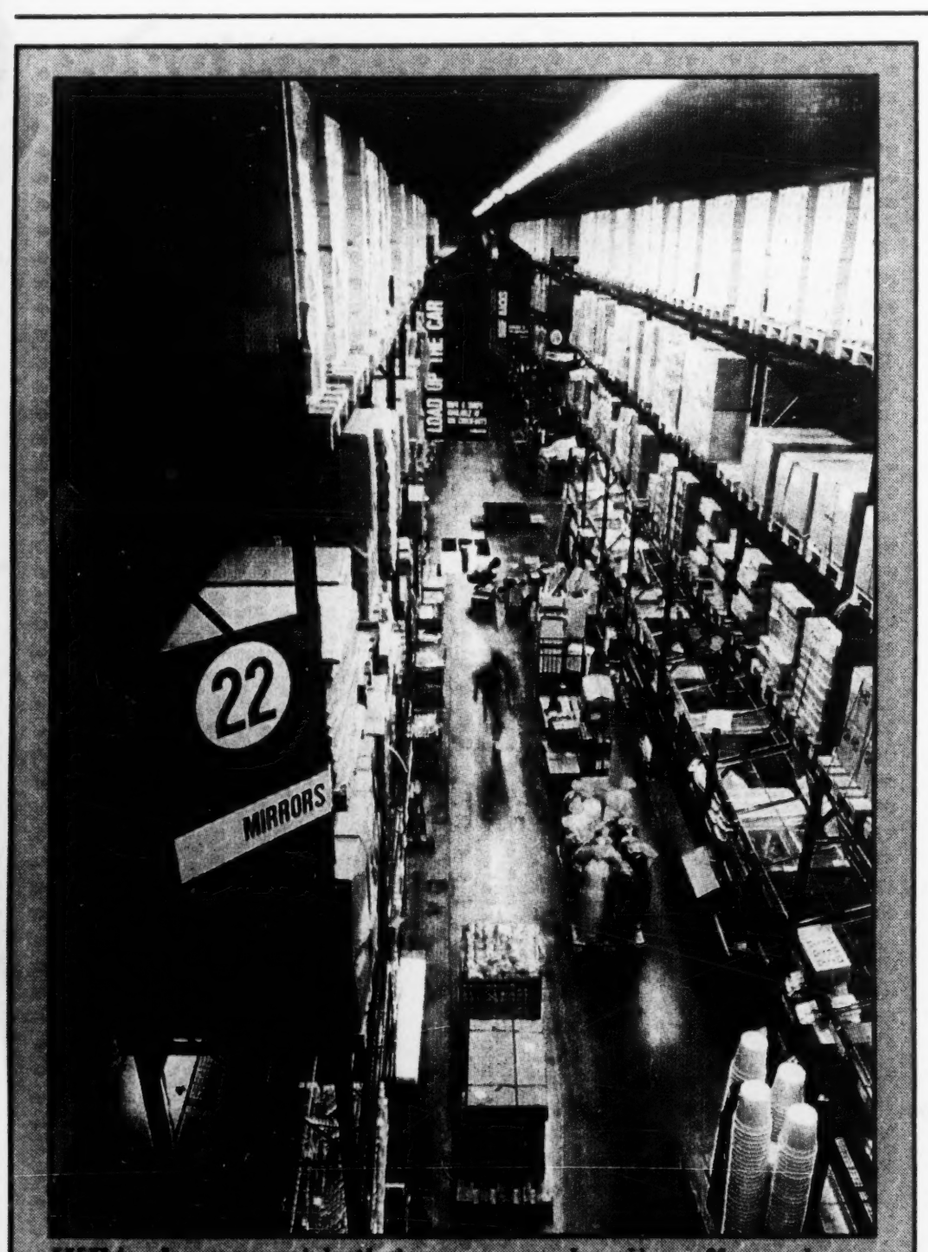


IKEA shoppers pick their own merchandise off warehouse racks, matching numbers on showroom furniture. (DSN photo)

Euro-Style IKEA Hits Metro N.Y. Market

By Richard C. Halverson

ELIZABETH, N.J. — With the opening of its first store in metro New York, IKEA has again demonstrated how to transplant a retail concept from its native country to nations as diverse as Saudi Arabia and Hong Kong.

A comparison of IKEA's latest store in Newark and a similar-size store in Brent Park, London, shows almost identical store formats, merchandise, catalogs and fixtures.

The only concession the Swedish home furnishings chain makes to U.S. tastes is to make its wallpaper strippable. Otherwise, it offers a standard merchandise mix developed for European tastes.

Offerings include scatter rugs measured in centimeters, kitchen cabinets and bath vanities that can't be screwed directly into American house studs, paint by the 10 liter (2.64 gallons) and 5 liter (1.34 gallon) pails and beds that won't fit U.S.-sized mattresses. Such merchandise ensures that replacements must come from IKEA.

(Continued on page 10)

K mart in '95: Bigger Stores, Lower Prices

By Pete Hisey

TROY, Mich. — Anyone expecting fireworks at slumping K mart's annual meeting was disappointed. Instead of criticism, chairman Joseph Antonini was greeted with rounds of sometimes extended applause as he delivered a "Retail Facts of Life" address, and wrapped up the meeting in a little over an hour.

Antonini sketched his view of the K mart Corp. in the year 1995, a vision that included 2,500 revamped or new K mart stores modelled on the recent Oak Park, Mich., prototype unveiled last year. They will be larger than the average K mart, roughly 87,000 square feet, so some 620 stores will have to be enlarged and another 298 replaced. Approximately 250 new locations in new, mainly rural, markets will be built over the next five years.

Those 2,500 stores (no more are envisioned) will be buttressed by "high volume, high quality, low cost" specialty formats, like Builders Square, newly acquired Pace Membership Warehouses and sporting goods megastore retailer Sports Authority. The latter two will grow at roughly 10 to 15 units per year, Antonini said, and all specialty operations will premier new formats in the coming year.

(Continued on page 117)

Good Guys Don't Finish Last

By Pete Hisey

SAN FRANCISCO — In an industry where 3 percent same-store sales increases are a cause for a flurry of press releases, what does a 25 percent increase merit? Particularly if the following quarter results in a 24 percent increase?

Those are the numbers that The Good Guys, the 22-store consumer electronics chain based here, posted in the first quarter (ended Dec. 31, 1989) and the second quarter (ended March 31, 1990).

According to president

(Continued on page 8)

***The Good Guys has tripled its** size since 1986. Higher-end products help differentiate, and distance, the chain from competitors.* (DSN photo)

Fax Marketers Take Aim At the Home Segment

By William McLoughlin
Special to DSN

Your daughter wakes you up in the morning and says she doesn't feel well. You take her temperature. Bingo. No school today. Five minutes later you're faxing a note to the school: "Dear Mrs. Jones . . . "

Telephone the doctor and have him fax a prescription to the drug store. Fax the druggist and ask them to deliver it along with a few other flu season necessities.

Sound farfetched? Not so, say a growing number of fax marketers, who are already looking beyond the burgeoning home office segment to the emergence of a true "home" facsimile market.

While current penetration

(Continued on page 8)

SPARCing IMRA

In part to help boost retailer attendance at its annual convention, the IMRA has agreed to co-sponsor *DSN's* annual SPARC (Supplier Performance Awards by Retail Category) banquet during next year's convention. The new Excellence in Retailing Banquet will be held on the opening night of the 1991 convention in Dallas. (See IMRA, page 3.)

Apparel: Putting Their Best Foot Forward — page 39

Home Products: Buyers Expect Busy CE Show — page 41

Hard Lines: Looking For Next Year's Dick Tracy — page 111

Insights: Uncertainties Spur Outlets' Growth — page 19

RTA Merchandising: A Look at RTA in the '90s — page R1

MARKETWATCH

Wal-Mart Sets 2nd Harrisburg, Pa. Unit

HARRISBURG, Pa. — Wal-Mart's known plans for new stores in Pennsylvania, keystone of its Northeast invasion strategy, now includes a second unit in Harrisburg, for a total of seven. The second capital area location will be in Silver Spring Township in the new Sporting Green Square mall on the West Shore of the Susquehanna River. The other is on the East Shore in a new mall called Swatara Crossing. A Sam's Wholesale Club will go up next door.

Sprouse-Reitz Eyes Unsolicited Offer

PORTLAND, Ore. — An Oakland, Calif., real estate investor has made an unsolicited offer to buy the Sprouse-Reitz variety store chain for $24.4 million. Sprouse-Reitz operates 287 stores in 10 Western states. The chain said its board its considering the offer out of duty to shareholders, even though the company isn't for sale.

Staples Targets 70 Stores by Year-End

NEWTON, Mass. — Staples is now a 48-unit chain of home office superstores. Recent store openings include Norwalk Conn., Warwick, R.I., and Paramus, N.J. By the end of the year, Staples plans to be a 70-unit chain, including up to eight stores in California. By early 1993, Staples plans to operate up to 130 stores including up to 34 in California.

[illegible] Offers 2 Board Seats

[illegible], Calif. — Pic 'N' Save has offered two of [illegible] Girard Partners, an investor group that [illegible] to wrest control of the closeouter in order either to sell it or buy it itself. In a previous attempt to fend off the hostile overture, Pic 'N' Save put itself on the auction block. Girard includes Robert J. McNulty, one of five men whom the partnership seeks to install on the board. The limited partnership owns a 6.6 percent stake but has made no offer to buy the remaining shares.

Office Depot to Make Stop in Kansas City

KANSAS CITY, Mo. — Office Depot, the office supply superstore based in Boca Raton, Fla., will open its first unit here, according to Leo Eisenberg Co., a commercial real estate firm. Office Depot has leased 27,466 square feet in the Metcalf 103 Shopping Center in suburban Overland Park.

Retailers Raise Funds for Boy Scouts

CHICAGO — Bernard Brennan, chairman, president and ceo of Montgomery Ward, and John Shea, president and ceo of Spiegel, co-chaired a Boy Scouts Lunch-O-Ree on May 17 to help raise $800,000 for Chicago-area Boy Scouts. Brennan and Shea encouraged all retailers operating stores in Chicago to participate in the fund-raising efforts. This year, JCPenney, Marshall Field's, K mart and Wal-Mart Stores actively participated in the luncheon.

JCPenney Boosts Involvement in JCPTV

DALLAS — JCPenney has taken two steps to boost its involvement in the JCPenney TV Shopping Channel's merchandising. It has named Al Bell to the new post of director of merchandise for JCPTV. It has also relocated the teleshopper's buyers to JCPenney's Dallas headquarters to give them more access to the retailer's own buyers and vendors, thereby enabling them to expand the cable retailer's apparel offerings. JCPTV's buyers had been stationed at the teleretailer's production and marketing studios, Shop Television Network in Los Angeles.

Retailers Will Spend $11B on MIS

ARMONK, N.Y. — IBM chairman John F. Akers told stockholders that the $62.7 billion company projects U.S. retailers will spend over $11 billion for information systems this year. Manufacturers will invest more than $30 billion, followed by financial institutions at over $18 billion. Educational use will account for the fourth-largest amount, more than $10 billion.

FOR THE RECORD

AT&T, Emerson and Thompson are the three finalists for the SPARC (Supplier Performance Awards by Retail Category) award in the consumer electronics category. The category was inadvertently omitted from a list of SPARC nominees published in *DSN's* May 7th issue.

Ulrich, Dabah, Fauber Tops In Reader Poll

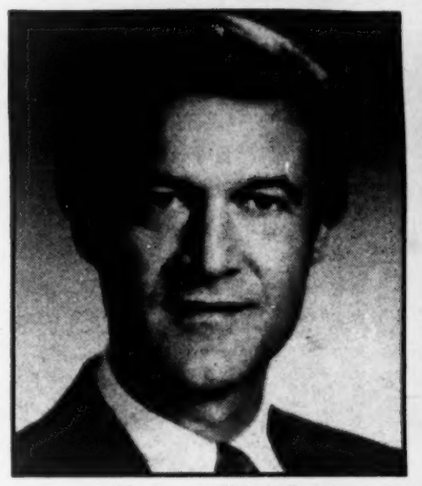
NEW YORK — Robert Ulrich, chairman of Target Stores, has been voted Discounter of the Year based on a reader poll conducted by *DSN*.

The recipients of two other prestigious annual retailing awards sponsored by *Discount Store News* were also announced. They are:

- Haim Dabah, president of Gitano, was named Vendor of the Year.
- Bernard Fauber, former chairman of K mart, was named to *DSN*'s Discounting Hall of Fame.

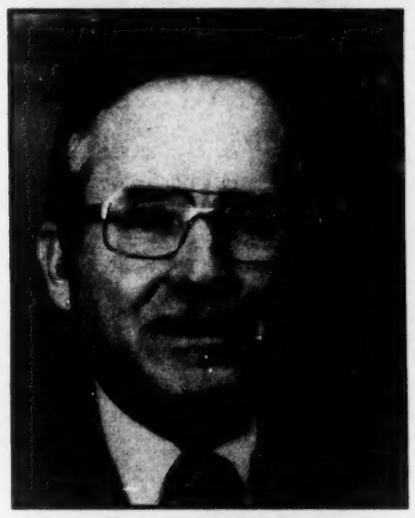
Ulrich was selected from a ballot of six nominees that included: Jim Sinegal, president, ceo, Costco; Tom Stemberg, chairman, ceo, Staples; Richard Sharp, president, ceo, Circuit City; Bernard Brennan, chairman, president, ceo, Montgomery Ward; and Warren White, executive vp, gm, Clover.

(Continued on page 117)



Robert Ulrich

Haim Dabah



Bernard Fauber

The Wholesale Club Debuts Prototype

INDIANAPOLIS — The Wholesale Club debuted a new prototype with the opening of its fourth unit here, the 25th warehouse in the chain.

Opened May 17, the newest store is a 110,000-square-foot unit sporting the company's 1990 prototype format, featuring 20,000 square feet of additional selling space, said Tom Geisse, senior vice president, marketing. The ceilings are 28 feet high, allowing enough room to stack four pallets rather than the usual three, said Geisse.

In addition, the new prototype features steel outer walls, giving the unit more storage/merchandising space. More selling space was carved out from some relatively minor layout adjustments: moving shopping carts outside the building and reducing the size of the receiving area, front-end and business office.

The 25-unit chain, which tallied sales of $569.7 million in 1989, plans to open five more units by year-end, including its first downtown unit in Chicago, south of the Loop. Chicago will get two other units this year, in Evanston and Cicero. All three will open this fall, said Geisse.

A second unit is slated to open this fall in Youngstown, Ohio, and one in Racine, Wis.

Prior to the newest Indianapolis unit, The Wholesale Club opened a warehouse in Milwaukee in late April.

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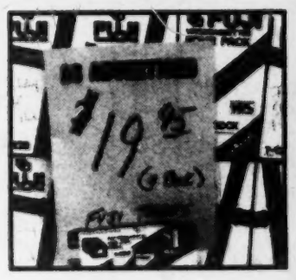

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EDITORIAL

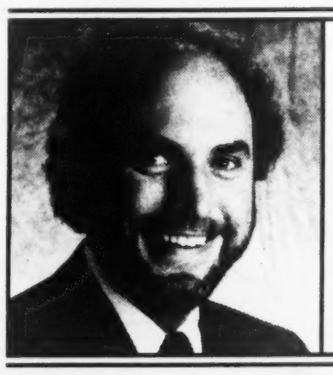
'Partnership' Absent From IMRA Expo

So what if you threw a big party and no one came!

Well, it wasn't quite that bad during last month's annual industry convention sponsored by the International Mass Retail Association, but the retail attendance was poor and it was one of the most talked about aspects of the show. Not only were many of the vendors (see Don Longo's column below) echoing this cliche, but even the retailers were concerned why so many of their peers, their fellow retailers, their friendly competitors, were noticeably absent.

"What's the big deal? Who cares?," you say. Let's take a closer look at the situation.

I have never been associated with an annual convention or exposition, nor do I know of one, at which there is so little support from the buying community, or in this case the nation's discount and specialty retailers. The discount industry is the most viable, the most prominent, and the largest segment of retailing. Therefore, one would assume that its annual gathering would be an event that no one would dare to miss. A rally of sorts; a showing of power, strength, and dominance.



TONY LISANTI
Editor

But this was not the case at this year's convention in San Diego, which had the lowest attendance of retailers ever. Only 47 retail companies were registered, compared with almost 60 in 1988 and over 100 in 1981. Not only were there fewer companies, but fewer representatives from each chain. Of this year's total in attendance five were service firms and lessees; four were Canadian retailers; four were variety store retailers; and three did not show up. There are more than 150 discount retail chains and more than 200 retail companies if you include other Canadian retailers and affiliated companies. Furthermore, over 130 retail firms are members of IMRA.

This apathetic attitude, this lack of support, this lack of involvement among the retailing community is not only a sad commentary of what many observers already perceive as a troubled industry but it is downright embarrassing to each and every person affiliated with the industry.

An annual convention should be a time of unity; a time to exchange ideas and seek solutions to common problems. Not a time of apathy that fuels criticism and turmoil.

It's ironic that the buzzword of the convention was "partnership." Over and over again, guest speakers preached partnerships between retailers and vendors as the way to do business in the 1990s. I would think that part of this partnership is attending and participating in the annual convention.

Why are retailers snubbing the convention? I've heard many different reasons, or excuses, ranging from the cost to the value to the time to the fact that it took place on Mother's Day weekend and so on.

What can be done to boost retailer attendance? I've also heard several ideas including inviting a large contingent of retailers from the same company to attend at a significantly reduced cost.

But these issues are in the capable hands of the IMRA board of directors. And they are always exploring ways to encourage retailer participation not only at the annual convention but throughout the year as well.

One step in the right direction was the announcement by IMRA that the association will join forces with *Discount Store News* by making *DSN's* well-known SPARC (Supplier Performance Awards by Retail Category) a part of the convention beginning in 1991. The supplier/retailer awards, traditionally announced in August by *DSN*, will now be unveiled during the opening banquet of the IMRA convention.

The purpose of this column is not to point a finger at any particular company or individual, but to encourage open discussions towards a solution; to encourage everyone to get involved in the industry; to encourage everyone to be proud.

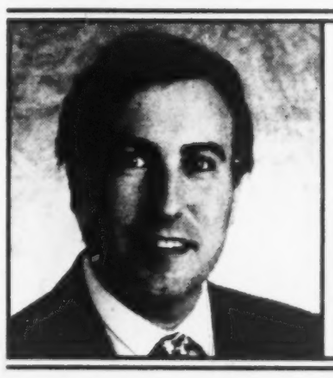
If you have any suggestions, write to me (at the address listed below) or fax me your opinion at (212) 838-9487.

BUYERS & SELLERS

No-Shows Missed a Well-Conceived Program

"You spend anywhere between $15,000 to upwards of $40,000 to attend and exhibit at your industry's annual convention so that you can meet your customers, talk over problems, and cement partnerships. In fact, the theme of so many of the general sessions was partnership between vendors and retailers. Then, you look in the attendance directory and see that many of the retailers didn't even bother to attend, or they didn't send as many people as they said they would. Others came late, and left early. Some made their speeches or sat on a panel, and made hardly a token visit to the exhibit floor. That's pretty difficult to swallow—especially with all the talk about forming partnerships. How do they expect us vendors to become partners with them if they won't even see us at the IMRA convention?"

No single vendor exhibiting at last month's annual IMRA convention in San Diego made the above comment. Instead, it's an amalgam of the views of many of the exibitors I talked with who were disappointed in retailer participation at the show.



DON LONGO
Exec Editor

Here's some other comments expressed by manufacturers either during the show—especially the first two days when several vendors could be seen wringing their hands and talking amongst themselves—or in phone conversations immediately after the event:

- "I'm really embarrassed for the retailers. They are not supporting their own organization."
- "More of the specialty chains should have come. They certainly share many of the same concerns as the mass retailers."
- "Wholesale clubs do big business with consumers. Price Club was on the attendance list, but I didn't see them."
- "Catalog showrooms are missing the boat by not being here. I saw Ray Zimmerman from Service Merchandise. I wish he had more of his people with him. And, where are the other catalogers?"
- "Where's Sears, Montgomery Ward and Woolworth? They should be here. They definitely are part of the mass retailing industry!"

Those retailers missed one of the best programs of seminars and roundtables ever put together by a trade association. Sessions on tomorrow's marketing challenges, the partnership program report by Jack Shewmaker, the look into the future by Dr. Marvin Cetron, and the standing-room-only session on environmental issues were cited by manufacturers as particularly apropos.

To be fair, several vendors reported a substantial pickup in retailer traffic over the final two days of the convention. Many termed the event a success overall. But, it's also good to see that the IMRA is taking steps to attract a larger turnout of retailers next year. Those steps include the addition of *DSN*'s annual SPARC (Supplier Performance Awards by Retail Category) to the IMRA convention program.

Another positive suggestion I heard was moving some of IMRA's successful conferences, such as Financial & MIS or Advertising, to run simultaneously with and at the same site as the annual convention. Then, financial or advertising executives could attend their own program of seminars, yet still be able to visit with vendors exhibiting their wares at the annual conference merchandise show. To really build a good partnership you need to know more than just a handful of people in the retailer's organization. It would be beneficial to both retailer and vendor to encourage greater interaction at all levels of their organizations.

Imagine the benefits to both companies if the retailer's chief financial officer or computer guru met with key executives at the vendor to discuss ways to facilitate billing or to eliminate unnecessary paperwork. The advertising exec could talk about product and store image, demographic changes and other marketing issues with the manufacturers.

It's an idea worth considering.

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FACTORY OUTLETS

Uncertain Climate Spurs Outlets

Stores Inch Closer to Off-Pricers' Turf

By Richard Halverson
Nationwide DSN Report

Factory outlet stores are getting a powerful boost from the retail chaos engendered by the Ames and Campeau bankruptcies.

No longer pipe rack operations carrying seconds and last year's unsold styles, factory outlet stores now offer a complete selection of the same first-quality, current fashions that department stores feature. And, the vendors don't have to worry about getting paid for the merchandise they retail on a cash-and-carry basis.

To avoid offending their department store customers, manufacturers traditionally have avoided locating their stores close to major urban centers or conventional malls. But that reluctance is diminishing. In Holland, Mich., for example, the Horizon Group built one of its five outlet malls right next to a conventional mall, where many of the same brands appear at full retail.

As developers run out of traditional outlet mall sites close to tourist destinations, they will begin moving closer to major metropolitan areas, such as Western Development did with its Franklin Mills Mall in Philadelphia, consultants predict.

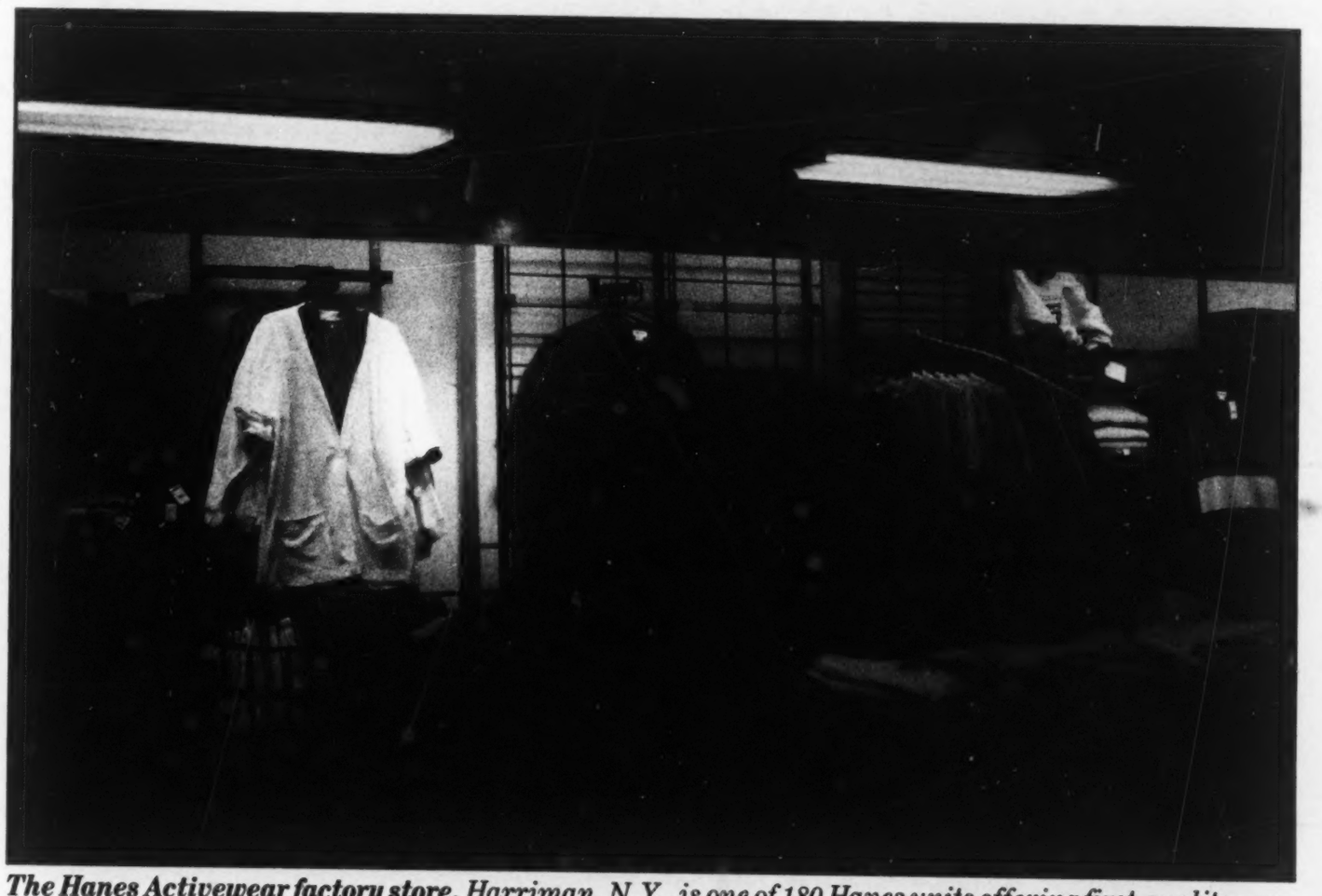
But most manufacturers haven't lost their traditional reluctance to talk about their retail operations.

The Factory Outlet Committee of the American Apparel Manufacturers Association conducts an annual survey of outlet stores, a spokeswoman said. The manufacturers refuse to let the association release even the names of vendors operating factory stores, much less the number of outlets they operate.

"They're rather secretive about their outlet business," the spokeswoman said. "They don't want a lot of publicity."

Increasingly, apparel manufacturers view their own stores as a new channel of distribution for first-quality merchandise built into their production schedules, rather than as a means of disposing of overruns and defective goods.

Outlet stores generated retail sales of an estimated $5 billion in 1989, and their sales are growing at a faster rate than general retail revenues. Factory stores handle only 3 percent to 4 percent of total apparel sales, although many of the designer labels they offer, such as Ralph Lauren, Harve Benard and Kuppenheimer Clothiers, are too costly to appear in discount and off-price apparel stores.



***The Hanes Activewear factory store,** Harriman, N.Y., is one of 180 Hanes units offering first-quality, current season goods at a discount, competing with the retail chains Hanes sells to at wholesale.* (DSN photo)

Yet, major suppliers to the discount industry such as Hanes, Gitano and VF Corp. (producer of Lee, Rustler and Wrangler jeans), Vanity Fair, Bassett-Walker, Jantzen and JanSport, and Big Ben and Lollipop, are major players in factory outlet stores. Gitano operates 73 outlet stores and VF operates 25 outlet malls, with a Lee jeans and shirt outlet as prime tenants. Both offer primarily first-quality, current fashion apparel.

In August, VF will open its 26th mall in in San Marcos, Texas. And, in October it will depart from its standard practice and open a store in somebody else's mall, the 2.2 million-square-foot Sawgrass Mills Mall in Sun City, Fla., outside of Fort Lauderdale. VF plans to open a total of 10 more stores this year.

Sara Lee-owned Hanes operates 180 outlet units divided between its latest venture, Hanes Activewear, Hanes Socks and Hanes/L'eggs/Bali.

In the Woodbury Common factory mall, Harriman, N.Y., Hanes operates all three types of stores.

Other apparel and shoe brands familiar to discount store and off-price apparel shoppers, such as Wolverine, Health-Tex, Revlon and even Bass shoes, also operate some of the largest retail chains.

And even if, K mart or Wal-Mart doesn't carry, for example, Van Heusen shirts, its pricing structure of at least one-third off suggested retail brings brand products at the bottom of the line into competitive position with private label offerings.

Van Heusen, for instance, offers its $18 dress shirts for $12, a small step up from discount department store private label shirts in the $9 to $12 range and at comparable prices that off-price apparel chains such as Marshalls or T.J. Maxx would charge.

VF Factory Outlets offer first-quality current style merchandise direct from the factory at "half the lowest ticketed price" on all of its branded apparel.

In addition to mass market clothing, Gitano factory stores also offer special apparel designed and priced to appeal to department store shoppers, said president Haim Dabah. Market research shows that the typical factory mall customer is a department store, rather than a discount store, shopper, he said.

The retailers' push for higher-margin private label goods is one reason why manufacturers are opening their own stores, said Charles Bloom, chairman of the Chelsea Group.

Chelsea operates seven factory malls, including Woodbury Common, at the gateway to the Catskills resort region, and The Tin Cannery, Monterey, Calif., another major tourist town. Chelsea is developing an eighth in Petaluma, Calif., entrance to the Napa Valley wine country, a prime tourist destination.

Factory stores permit manufacturers to test new styles and help them "orchestrate and control distribution," Bloom said.

Competition for Off-Pricers

Much of the $5 billion chunk of apparel business that factory outlets are siphoning off is business that off-pricers such as Marshalls, T.J. Maxx and Burlington Coat otherwise might enjoy.

"Outlet malls may well represent another form of discounting," said Dan McCarthy, senior manager of the trade consulting group for Deloitte & Touche, New York.

Van Heusen, the largest operator of factory stores, opens stores in three types of locations: in conventional strip centers, in "pure" factory outlet malls whose tenants primarily are manufacturers, and in off-price malls whose tenants typically split between factory stores, off-price stores and other retail establishments such as beauty salons and fast food outlets.

In a recent interview in *Fortune*, Phillips-Van Heusen chairman Larry Phillips said that the 1987 decision of Macy's to drop Van Heusen shirts in favor of its own private label fueled his determination to better control distribution. In addition, Dillards dropped Van Heusen shirts in favor of Arrow when it acquired department store chains that carried his apparel, Phillips said.

About 50 percent of Van Heusen's business comes from its own stores, estimated Robert Salerno, partner for the national retail consulting group of Coopers & Lybrand, New York.

The number of "pure," or primarily factory outlet malls, rose to 240 in 1989 from 21 in 1981, said Terry Dunham, publisher of *Value Retail News*, Clearwater, Fla.

The total includes 40 opened in 1989, Dunham said. Developers will open about 40 more this year, he estimated.

Off-price malls, often anchored by, say, a Phar-Mor

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Largest Factory Outlet Chains

Manufacturer Outlet	No. of Units
Van Heusen Factory Store[1]	218
Hanes[2]	180
Bass Shoe Outlet[1]	156
Banister Shoe[3]	140
Little Red Shoe House (Wolverine)	128
Kuppenheimer Men's Clothiers	125
Aileen Stores	125
Kids Port USA (Health-Tex)	110
Prestige Fragrance & Cosmetics[4]	105
Old Mill (Country Miss)	94
Dan Howard's Maternities Factory	90
Manhattan Factory Stores	89

[1]Owned and operated by Phillips-Van Heusen
[2]Owned by Sara Lee; includes Hanes/L'eggs/Bali, Hanes Socks and Hanes Activewear stores.
[3]Owned and operated by U.S. Shoe Corp
[4]Associated company: Revlon
Unit count as of Jan. 1, 1990 Source: Value Retail News and DSN research.